

## Message Text

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TO SECSTATE WASHDC IMMEDIATE 1896

INFO AMEMBASSY JAKARTA IMMEDIATE

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C O N F I D E N T I A L TOKYO 12973

LIMDIS

E.O. 11652: GDS

TAGS: ENRG, EFIN, ID, JA, US

SUBJECT: INDONESIAN-JAPAN LNG TRANSPORTATION

SUMMARY: NEGOTIATIONS ON TRANSPORTATION OF LNG FROM INDONESIA TO JAPAN ARE APPARENTLY NEAR SUCCESS. PROVIDED FREIGHT RATE IS AGREED UPON, ALL SHIPS BEING BUILT BY GENERAL DYNAMICS WILL BE USED AS THEY BECOME AVAILABLE. FIRST TRANCHE ON LNG COST OVERRUN LOAN WAS ALSO DISBURSED TODAY. END SUMMARY.

1. AT LUNCH WITH EMIN TODAY, NEW DIRECTOR OF MITI PETROLEUM DIVISION FURUTA CONFIRMED THAT AFTER WEEKS OF TOUGH NEGOTIATIONS IN NEW YORK AND TOKYO, JAPANESE AND INDONESIANS ARE FINALLY ON THE VERGE OF AGREEMENT ON TRANSPORTATION COMPONENT OF BADAQ LNG PROJECT. AT THE JAPANESE INITIATIVE, BURMAH TANKERS AND PERTAMINA DIRECTOR WIJARSO HAVE ACCEPTED A PROPOSED REPORT TO MITI WHICH 1) RECOGNIZES THAT THERE MAY BE DELAYS IN THE CONSTRUCTION OF GENERAL DYNAMICS' LNG CARRIERS, BUT, 2) ASSURES MITI THAT TWO SUBSTITUTE VESSELS WILL BE AVAILABLE FOR THE PROJECT BEGINNING IN 1977. THE PARTIES HAVE NOT YET AGREED TO A FREIGHT RATE BUT BOTH PERTAMINA, AND, MORE IMPORTANTLY, CONFIDENTIAL

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MITI ANTICIPATE AGREEMENT WILL BE REACHED TONIGHT OR

TOMORROW.

2. ACCORDING TO PERTAMINA SOURCES (BENSON AND SARWONO), GOTAAS-LARSEN WILL RECEIVE A FIRM COMMITMENT TO UTILIZE ONE OF ITS VESSELS AS THE FIRST SUBSTITUTE VESSEL FOR SIX MONTHS, BEGINNING IN MARCH, 1977, WITH AN OPTION TO USE IT FOR ANOTHER 18 MONTHS. LEIF-HOEGH WILL RECEIVE AN OPTION TO PROVIDE THE SECOND VESSEL BEGINNING AUGUST 1, 1977. A DECISION WHETHER OR NOT TO USE THE LIEF-HOEGH VESSEL MUST BE MADE BY DECEMBER 31, 1976. LNG SHIPS BEING BUILT BY GENERAL DYNAMICS, WHETHER EASCO OR CHEROKEE, WILL BE BROUGHT INTO SERVICE AS SOON AS THEY BECOME AVAILABLE.

3. BENSON PHONED THE EMBASSY THIS AFTERNOON TO REPORT THAT THE FIRST DRAWDOWN ON THE LNG FACILITY COST OVERRUN LOAN HAD TAKEN PLACE.

4. IN A REMARKABLY FRANK CONVERSATION WITH EMBOFFS, FURUTA SAID THAT AS A STALWART IN PRIME MINISTER MIKI'S FACTION, MITI MINISTER KOMOTO WAS VERY SENSITIVE TO PRESS ALLEGATIONS OF BRIBES HAVING BEEN PAID TO "HIGH OFFICIALS IN JAPAN". (THE CLEAR IMPLICATION WAS THAT KOMOTO HAD PASSED THE WORD GO HAVE THE NEGOTIATIONS BROUGHT TO A SUCCESSFUL CONCLUSION.) FURUTA SAID HE HAD TALKED AT LENGTH LAST NIGHT WITH A YOMIURI REPORTER TO EXPLAIN THE COMPLEXITIES OF THE BURMAH TANKERS/INDONESIAN LNG SITUATION. FURUTA NOTED THAT A YOMIURI ARTICLE THIS MORNING HAD SHIFTED ITS ATTENTION AWAY FROM BRIBERY ALLEGATIONS TO POSSIBLE DELAYS IN COMPLETING THE LNG LIQUEFACTION FACILITIES.

5. COMMENT: ALTHOUGH TOUGH BARGAINING ON THE FREIGHT RATE REMAINS, IT APPEARS THAT THESE TORTUOUS NEGOTIATIONS MAY BE ON THE VERGE OF SUCCESS. THE JAPANESE HAVE BACKED OFF GREATLY FROM ALMOST EVERY DEMAND. ALTHOUGH BURMAH RISKS BEING STRUCK WITH A GOTTAAS-LARSEN VESSEL FOR UP TO SIX MONTHS IF THE GENERAL DYNAMICS SHIP IS ON TIME, IT SUCCEEDS IN PROTECTING BOTH ITS EASCO AND ITS CHEROKEE INVEST-  
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